

Examiners should be aware that candidates may take a different approach which if appropriate, should be rewarded.

If there is no direct reference to the text/data, then candidates may not be rewarded beyond level 2.

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1–2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3–5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6–8

4. (a) Define the following terms indicated in bold in the text:

(i) quotas (*paragraph ❶*) [2 marks]

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that they are a type of protectionist measure.	1
2	<i>Precise definition</i> An explanation that they are limits on the quantity (or value) of imports that may be imported into a country.	2

(ii) demand (*paragraph ❸*). [2 marks]

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is the amount of a good that consumers wish to buy.	1
2	<i>Precise definition</i> An explanation that it is the willingness and ability to purchase a quantity of a good or service.	2

- (b) Using an appropriate diagram, explain how reduced tariffs are likely to affect the Australian car industry. *[4 marks]*

level

- | | | |
|---|---|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a tariff diagram showing a shift downwards of the world supply curve plus tariff or for explaining that reducing tariffs will decrease the market price of cars, decrease domestic production, and increase the quantity of imports. | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a tariff diagram showing a shift downwards of the world supply curve plus tariff and for explaining that reducing tariffs will decrease the market price of cars, decrease domestic production, and increase the quantity of imports. | 3–4 |

Candidates who incorrectly label diagrams can receive a maximum of *[3 marks]*.

The use of P and Q on the axis is sufficient for the diagram. A title is not necessary.

- (c) Using an appropriate diagram, explain how increased subsidies will impact on the production of cars in Australia. [4 marks]

level

- | | | |
|---|---|-----|
| 0 | <i>Inappropriate answer</i> | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing an international market demand and supply diagram showing a shift to the right/increase of the domestic supply curve OR for explaining that the increased subsidies will lead to increased production by domestic producers because of lower costs, and lower imports. | 1–2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing an international market demand and supply diagram showing a shift to the right/increase of the domestic supply curve and for explaining that the increased subsidies will lead to increased production by domestic producers because of lower costs, and lower imports. | 3–4 |

N.B. Candidates may draw the diagram carrying on from part (b), with the imposition of a tariff and then a subsidy being given. If this is shown properly and explained fully, then this approach should be fully rewarded.

Candidates may show a diagram of the domestic market for cars, as in question 1(b), and explain using that diagram and ignoring the international aspect of the question. If this is the case, they may receive no more than [1 mark] for the diagram and [1 mark] for the explanation.

Candidates who incorrectly label diagrams can receive a maximum of [3 marks].

The use of P and Q on the axis is sufficient for the diagram. A title is not necessary.

- (d) Using information from the text/data and your knowledge of economics, evaluate whether increased protection for the Australian car industry will benefit the Australian economy.

[8 marks]

Responses may include:

- a definition of protection with examples from the text
- an identification of the nature of protectionism for the Australian car industry, (tariff, but at a reduced rate; subsidies to producers).

Possible advantages of increased protection:

- increased demand for Australian produced cars
- increased production of cars in Australia
- increased production of more fuel-efficient cars (*paragraph 3*)
- increased employment in the Australian car industry (*paragraph 4*)
- increased income for Australian car industry workers (*paragraph 4*)
- reduced market failure, if greener cars are produced, whether domestically or imported (*paragraph 3*)
- Australia remains one of only 15 countries that can design, engineer and build a car from scratch (*paragraph 4*).

Possible disadvantages of increased protection:

- less demand for imported cars if the effects of subsidies were to outweigh the effects of the planned cut in tariffs
- lower revenue for car importers if the effects of subsidies were to outweigh the effects of the planned cut in tariffs
- the need for government payment of subsidies (*paragraph 1*)
- the opportunity cost of providing increased subsidies
- more fuel-efficient cars can be provided more cheaply by producing them overseas rather than in Australia (*paragraph 3*)
- less efficient allocation of resources
- limits competitive pressures in the Australian car industry (*paragraph 7*)
- negative impact on employment and incomes of other industries (*paragraph 5*).

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

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